

THE NATURE OF CONTROL AREAS

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Controls must be set up in line with accepted general management principles. In this chapter the nature of major key performance areas is examined in some detail with a view to providing aids in establishing key controls.

Financial Condition

Every business has a set of records. To a great extent, tax laws and accounting practices require that they be uniform. It is not surprising, therefore, to find that most companies have rather complete and adequate financial information. Here are some of the questions we should ask ourselves when looking at this information.

- a. Are we making any money (profit or margin)?
- b. Are we going into debt or getting out?
- c. Are customers paying their bills?
- d. What is our cash position?
- e. How are sales?
- f. How much are we paying for labor?
- g. Are we caught in the cost-price squeeze?

Operations

The controls established over operations must, of course, be tailored to the specific product or service being produced, processed, or provided. The detailed information for such controls can usually be found in production records, service reports, quality records and the like all the regularly kept records that indicate what has happened.

The general manager may not need or want a mass of detail about operations. His key or critical questions might be the following:

What are the: units produced
 labor cost
 products meeting standards
 by-product sales
 cost per unit

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Market Position

Whether it be a large or small market area, a businessman must keep alert to the changes and conditions of markets and his position in them. He should constantly be concerned about his relative market position. Some of the questions he might ask himself are the following:

- a. What are your total sales of product?
- b. What is the total sold in company sales area by others?
- c. What is the % of total sales in immediate sales area?
- d. What is the % of sales dollars spent on advertising?
- e. What is the % of customers paying accounts within 30 days?
- f. What is the total expenditures for research?

Example of determining market position:

If an elevator manager and you wanted to know how much of the hog feed business he has, first define the market area by plotting his customers and drawing a line around them. Next find the number of hogs produced in the area. Determine how much feed is needed for these hogs. Then take this total feed requirement for your area and compare this to the amount you sell to find your present share of the market.

$$\% \text{ of Market} = \frac{\text{Your \$'s sold or \$'s of Hog Feed Sold}}{\text{Total Market or Total Hog Feed Sold}}$$

Productivity

Businessmen pay a lot of attention to the financial and operational phases of their businesses, but they usually overlook the importance of productivity. Yet the relationship between input and output is vital for the life of a business. In the face of increasing cost and a continuing demand for a rising standard of living, the businessman must use methods, equipment and facilities which result in increasing the output of his enterprise compared with the input.

Key indicators for productivity in two types of business will serve as illustrations. In the electric power industry, the key indicators listed below might be used:

- a. Ratio of total man-hours (all employees) to total KWH's sold.
- b. Ratio of total value of electric plant in service to value of KWH sold (dollars & #'s).
- c. KWH sold annually per \$1,000 of investment.
- d. Total employees per consumer.

In the milk processing business some key indicators related to productivity might be the following:

- a. Ratio of total product purchased to total product sold.
- b. Percent return on capital investment.
- c. Production units per man hour.
- d. Units produced per machine.
- e. Maintenance cost per mile.

Service or Customer Relations

In addition to providing basic products or services, businesses are expected to furnish supporting services that give the customer something of additional value. An essential type of service is repair and maintenance that is available when and where needed. Others might have to do with the adjustment of complaints about deliveries, product quality, credit terms, guarantees, and the like.

In a larger sense, service has to do with a feeling of responsibility for filling the needs of the customers.

Some questions a general manager should ask are:

- a. What is our level of complaints?
- b. How often do we have contact with our customers?
- c. Is our service frequent enough?

Ownership Relations

The following questions might well be answered in narrative or graphic form with appropriate references to the standards the owners have in mind. Even though numbers cannot be used in such reporting, the subject matter is so important that it may carry more weight than statistics and ratios alone.

- a. What have we accomplished in the last month, three months, six months, etc...
- b. Have you done a complete job of reporting to the owners?
- c. In what ways is your business better run than your competitors? Or less?
- d. What opportunities have you missed to improve the business? Or taken advantage of?
- e. How has your level of earnings compared with that in comparable enterprises?

Employee Relations and Development

While most people feel that human values in business are more important than material values--they rarely have specific ideas as to the methods needed to evaluate human factors. Even though such factors cannot be measured as specifically as money or production, it is essential that they be evaluated.

Standards and key indicators can be set in each of the following areas. Even though judgment must be used in evaluating performance here, careful and systematic estimates can yield useful data in an area involving many intangibles as this one does:

Organization
Wage & Salary Administration
Personnel Selection
Performance Appraisal
Training

Public and Government Relations

There are several publics with whom business must deal. All of them have an image in their minds of the personality, reputation and character of the business. What do these terms mean?

- a. Personality - what the business appears to be
- b. Reputation - what the business is known to be
- c. Character - what the business really is

Measurements of public reaction can be made through polls and surveys. Sensitivity to the reactions of opinion leaders in the community can give indication of public reaction to a business. Sincere self-examination can often disclose areas where the business can strengthen its own character and indirectly its reputation. All of these indicators can help a business to select with care the ways in which it spends money and effort to improve its relations with the public and with the government.